

CalPERS' Actuarial and Retirement Benefits Seminar

■ **Rate Volatility**

■ **Rate Stabilization**

■ **Preview 2006-07 Rates**

■ **Pooling**

■ **GASB 45**

GASB

45

GASB

- **Government Accounting Standards Board Statement Number 45**
- **Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**

New Accounting Rules

- **For Recognizing Cost of Retiree Medical Benefits in Annual Financial Reports of State and Local Government Employers**
- **Anticipates But Does Not Require “Pre-funding”**
- **Applies Mainly to DB Retiree Medical, Simple Rules for DC**

Improves Financial Reports of Government Employers

- Must Book Expense Amount for Active Employees Based on **Accrual Basis** Method
- Must Provide Footnote Information on Accrued Liability and Funding Progress, **if Applicable**

Accrual Basis Cost

- **OPEB is Part of an Exchange of Pay and Benefits for Employee Services**
- **Accrual Basis Accounting Assigns Cost to Period of Service**
- **Pay-as-you-go Waits to Recognize Cost Until Member Retires**

Agency Must Book Expense Item Called “ARC” for Active Employees

- Normal Cost + 30 Year Amortization of Unfunded Liability
- Requires **Actuarial Valuation**
- Except, < 100 Members, Can Use “Alternative Measurement Method”

Timing of Actuarial Valuations

- **> 200 members, every 2 years**
- **< 200 members, every 3 years**
- **Valuation date up to 24 months before beginning of first year**

Actuarial Valuation

- **Guided by ASOP No. 6**
- **Healthcare Cost Trend Rate**
- **Investment Return Assumption and Discount Rate**
- **Actuarial Value of Assets**
- **List of Actuarial Cost Methods**

Actuarial Valuation

- Can Use Premium Structure as Initial Per Capita Healthcare Rates**
- If Same Premium Rates Apply to Active Employees and Retirees, Actuary Must Obtain or Estimate Age-Adjusted Premium Rates for Retirees**

Must Also Book an Expense for “Adjustment For Net OPEB Obligation”

- **Interest on Net OPEB Obligation,
Minus**
- **Amortization**

Net OPEB Obligation

- Cumulative Difference Between Annual OPEB Cost and Contributions
- Zero at Implementation
- If Not Funded, This Becomes an Increasing Liability on Balance Sheet
- Because of This, Many Agencies Will Want to Pre-Fund Benefits to Offset the Growing Liability
- Unfunded Liability is Disclosed in Footnote

Footnote to Financial Statements

- Annual OPEB Expense and Contribution for Current and 2 Preceding Years
- Funded Status Information Including Assets and **Accrued Liability for Current and 2 Preceding Years**
- Plan Description, Funding Policy, Actuarial Methods and Assumptions

Effective Dates

- Based on **Total Annual Revenue** in First Fiscal Year Ending After June 15, 1999 (1998-99 For June 30 Year End)
- **Phase 1**, > \$100 Million, 1st Fiscal Beginning After December 15, 2006 = **2007-08**
- **Phase 2**, \$10 To \$100 Million, **2008-09**
- **Phase 3**, < \$10 Million, **2009-10**

Board Considering Extent of Involvement For PEMHCA

- **Minimum: Provide Plan and Member Data to Agencies**
- **Limited: Prepare Actuarial Valuations with Cost and Disclosure Information**
- **Full Service: Prepare Actuarial Valuations, Accept and Manage Assets and Administer Benefits**
- **Full Service Would Require CalPERS to Prepare Information for the Plan Under GASB 43, Beginning 2006-07**

Reasons to Pre-Fund Retiree Medical Plan

- Reduce Employer Contributions**
- 80% of CalPERS' Pensions are Paid from Fund Earnings**
- Discount Rate is Estimated Earnings on Assets Expected to be Used to Pay Benefits**
- Offset Liabilities in Balance Sheet**
- Greater Security for Members**

End Section GASB 45